



115.8



THE MEREDA 2023 INDEX

This Edition of the MEREDA Index is Underwritten by:

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MEREDA
INDEX



Pictured on Front Cover: Recipients of MEREDA's 2022 Notable Project Award

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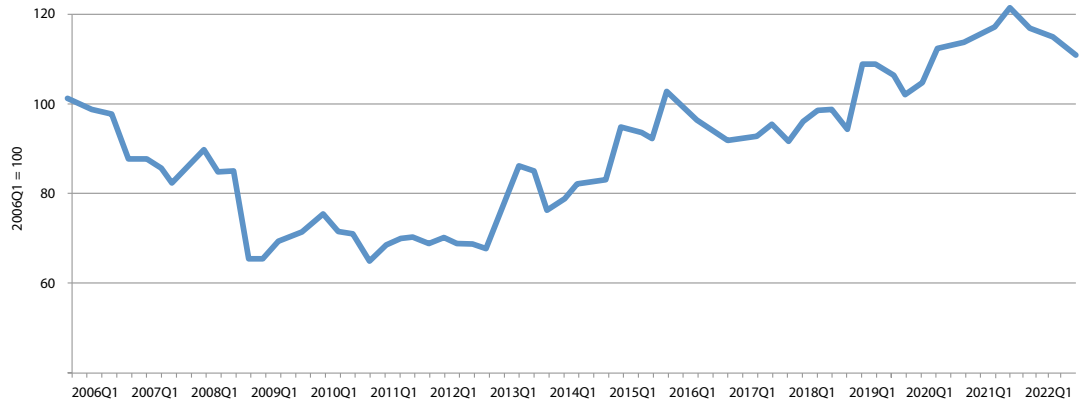
WHAT IS THE MEREDA INDEX?

The MEREDA Index is a measure of real estate activity designed to track changes in Maine's real estate markets. The Index is a composite of nine measures reflecting both new development and transactions involving existing properties and it covers both the commercial and residential markets statewide. The Index is measured quarterly beginning in the first quarter of 2006. This report covers the Index through the fourth quarter of 2022.

THE MEREDA INDEX FOR 2022: 115.8¹

The MEREDA Index declined by 0.8% between 2021 and 2022. The decline was driven by the residential Index, which fell 7.3% as interest rate increases began to seriously bite into real estate markets. The commercial and construction components of the Index both increased, by 3.5% in the former case and 6.4% in the latter case. These increases were not sufficient to offset the drops in residential activity. The decline in the annual average understates the industry issues as the fourth quarter in 2022 for both commercial (-9.1%) and residential (-16.1%) Indexes showed substantial declines relative to the fourth quarter of 2021.

MAJOR COMPONENTS



¹Annual average



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Maine Real Estate &
Development Association

Supporting Responsible Development

INTRODUCTION

“Eleven years ago, MEREDA decided to invest in an annual study to measure various components of the real estate industry in Maine, and to combine the results into one number. We call that number the “MEREDA Index.” When we elected to embark on this project over a decade ago, we understood that the Index was information that would become more meaningful over time, as a way to compare and chart the progress of the real estate industry in Maine.

The first Index was prepared in 2012, and included information going back to 2006, which we treated as the benchmark for the Index. The first several years of computing the Index were marked by the impact of the Great Recession. Now in our 11th year of preparing the Index, we have new historic events shaping our economy and industry. The information and analysis provided by the Index is proving to be extremely useful and informative – not only by showing the relative performance of various sectors of the real estate industry, but also as a way of tracking the trends for each component of the Index.

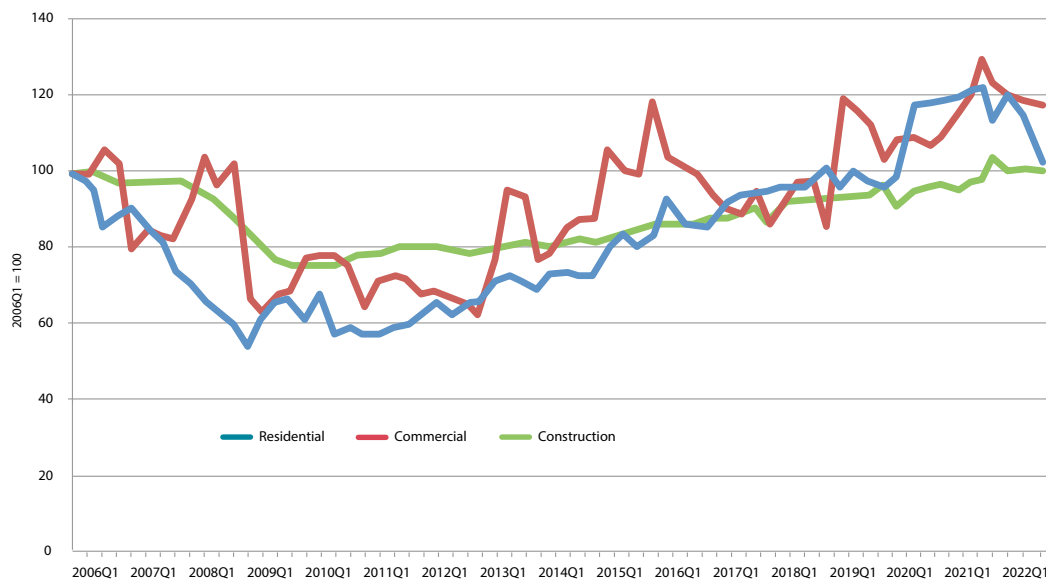
The 2023 Index contains a report from Dr. Charles Colgan with a measurement and presentation of the real estate market in Maine and its various components for all of 2022. To complement Dr. Colgan's report, we asked our three commentators to share their 'boots on the ground' perspective for their sector - commercial, residential, and construction. Their commentary gives a deeper understanding of what the nine data points of the Index demonstrate – not just for the real estate industry, but for Maine's entire economy.

Looking at the report, we see that 2022 was another fascinating year for Maine's real estate economy, with strong demand, limited supply, and inflation impacting the shape of the markets. With residential prices continuing to increase, buying a home in Maine remains a challenge. We want people moving to Maine, and we also want the Mainers who already live and work here to be able to access safe and affordable housing. This truly is the issue our generation must collaborate on to find viable solutions to move our state in the right direction. While MEREDA's Public Policy Committee is focusing their efforts on reducing the barriers for housing creation with three bills coming up before the legislature, I'm heartened to see the other efforts MEREDA members are taking to help responsible development thrive in Maine.

On behalf of the MEREDA Board, I'd like to thank Dr. Charles Colgan for tabulating such an incisive analysis for our Members. Thank you especially to Shelly Clark, MEREDA's Executive Director, who truly makes everything happen. Thank you to our industry experts for their thoughtful commentary, and to our sponsors who make this report possible.

Lastly, thank you MEREDA members for being a part of our organization and our mission of supporting responsible development in Maine.”

MAJOR COMPONENTS OF THE MEREDA INDEX



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CRAIG YOUNG

PRESIDENT OF THE BOARD,
MEREDA
PARTNER, SENIOR BROKER
The Boulos Company

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MEREDA INDEX

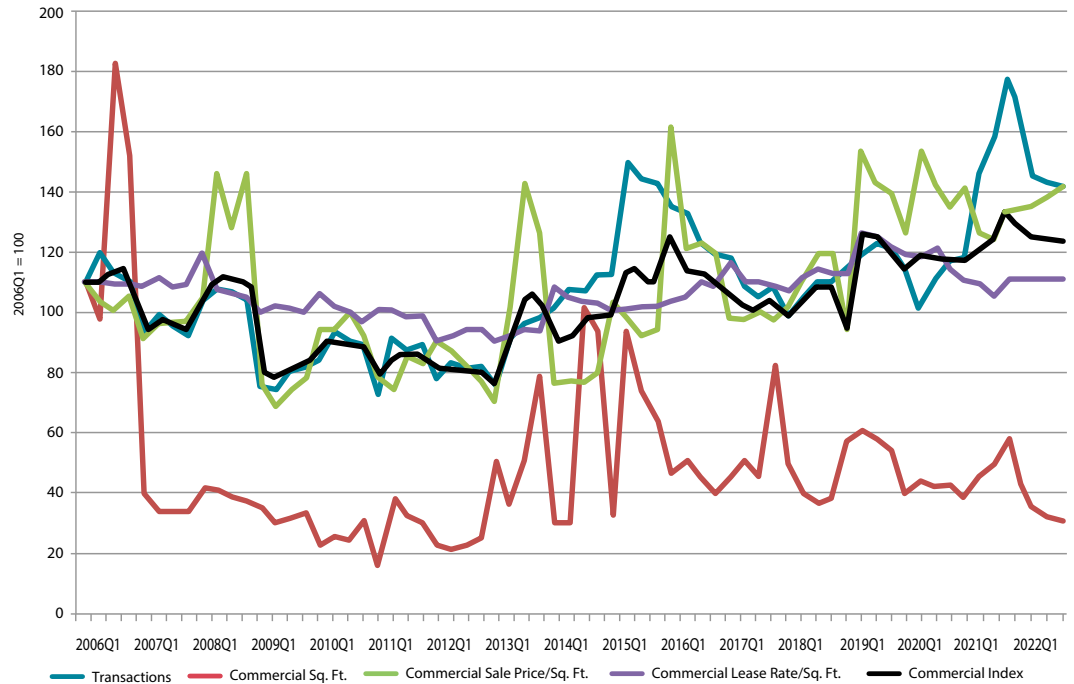
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THE COMMERCIAL COMPONENT: 120.8

50%
COMPOSITE
INDEX

The components of the commercial Index all increased on an annual average basis compared with 2021, but all four components also ended the year below the end of year in 2021 calculated on a 4-quarter moving average basis. The index for the number of commercial real estate transactions reported in the Boulos database grew slightly on a year over year basis but the end of year index value was down 4.3%. Commercial square feet also declined in the latter part of the year, along with both the average sales price per square feet and the average lease rate.

COMMERCIAL COMPONENTS



In 2022, the commercial real estate industry in southern Maine experienced some exciting growth, particularly in Portland. As pandemic worries continued to ease, the region's retail and dining sectors began to thrive once again, with new businesses opening throughout the city. As people recalibrated post-COVID and prioritized living in walkable communities with increased access to amenities, it translated into the trend of moving back into densely urban areas. East Brown Cow similarly recalibrated our portfolio in 2022 to gradually shift away from management of suburban spaces to reinvest capital into the urban fabric of Portland's ever-vibrant downtown.

Although online shopping and a lack of labor pose risks for retail, recent lease transactions demonstrate the true strength of the local market. For example, East Brown Cow welcomed Madewell, a popular national retailer, to our property at 75 Market Street in November of 2022. Overlooking Post Office Park at the corner of Market and Middle Streets, this 5,532 square foot space is the company's first store in northern New England. This transaction represented years of progress to curate Portland's Old Port into a unique retail shopping destination, one that is successful for national retailers and independent businesses alike. For our team, this is the key for continued commercial growth.

Portland also experienced an increased interest in mixed-use spaces, another interesting trend. Visitors and residents are searching for amenity-rich spaces and developers sought to capitalize on the demand. At East Brown Cow, we saw this as an opportunity to expand our offerings at The Docent's Collection, an alternative to traditional hotels that provides temporary luxury lodging within historic, mixed-use buildings in Portland's Old Port. These properties combine retail or dining spaces on the ground floor with hospitality stays on the upper floors, providing a unique urban living experience. The success of this type of project can partly be attributed to downtown Portland's growth in the commercial sector, as new dining and retail businesses look to leverage the increase in visitors to the Old Port.

Looking ahead, we remain optimistic about investment opportunities in urban, walkable areas across Maine. For example, in Portland our multimillion-dollar renovation of the Fore Street Garage continued in 2022, along with a project to repurpose One Canal Plaza's first and ground floors into retail space. These projects are another sign of the strength of the area's retail market, and we anticipate that the demand will continue to rise in the coming years.



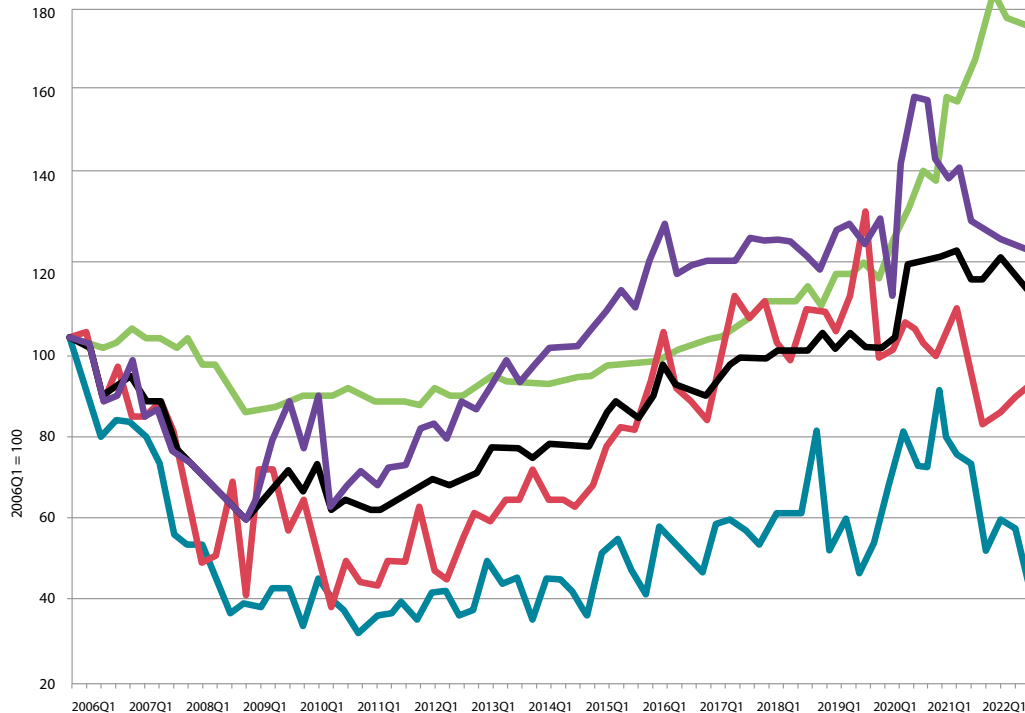
STEPHEN NAHLEY
CHIEF OPERATING OFFICER
& GENERAL COUNSEL
East Brown Cow

THE RESIDENTIAL COMPONENT: 112.8

40%
COMPOSITE
INDEX

The weakest part of the MEREDA Index was the residential sector. Three of the four components of the Index showed declines on a year over year basis and on a 4th Quarter over 4th Quarter basis. The only component that continued to increase was the median sales price, whose index value grew 18% on an annual basis. At 174.3, the median price index reached its highest annual value. The highest quarterly value was 186.7 in 2022Q2 but the growth in the index value halted in the second half of 2022 falling to 170.0. The largest drop in residential Index components was in permits; the index value fell by more than 32% on an annual basis. This fall in the number of permits reflects higher interest rates. Both mortgage originations and the number of existing units sold declined, with their index values falling 18.3% and 17.1% respectively (year over year).

RESIDENTIAL COMPONENTS



In 2022, the residential real estate market in Maine saw home prices soar to staggering new heights, further deepening the crisis many Mainers face to access affordable housing. The year started with an average mortgage interest rate of approximately 3%. As it became evident that inflation was not transitory, this interest rate more than doubled to a peak of over 7%, which affected affordability and forced many hopeful homebuyers out of the market. However, the low inventory and strong in-migration kept Maine's market very strong for sellers throughout 2022. For example, I worked with buyer clients who finally closed on a South Portland home in September after four multiple offer situations. The home was listed for \$680,000 and closed for \$830,000.

This robust statewide sellers' market resulted in a striking median sales price of \$335,000 in 2022, an increase of 12.04% from the previous year's median sales price of \$299,000. Meanwhile, unit sales decreased by 17.49%, further impacting the acceleration in home prices. All 16 counties in Maine witnessed an increase in the median sales price and a decrease in the number of home sales compared to 2021, with 2022 home sales dipping below 17,000 units, for the first time since 2015.

The pandemic has played a significant role in these changes, including the impact of in-migration and work-from-home trends. I worked with a couple that fled California who purchased new construction in Pownal. They work remotely and will be relocating their life here. A recent MoveBuddha report from November 2022 identified Portland as the #2 city to move to, and Maine as the #3 state for in-migration. This can also be seen in a statistical search from Maine Listings, which shows that pre-pandemic an average of 27.4% of out-of-state zip codes purchased Maine real estate. In 2021, it reached 35.4%, and remained steady at 34.4% in 2022.

Some of the trends in Maine's residential market that accelerated during the pandemic could shift after a couple of exciting winters, or it could be that Maine has been discovered. If the latter is the case, Maine not only has an opportunity but an imperative to rethink its most recent sprawl-centric local zoning ordinances. We need to accommodate the influx of new Mainers while also taking care of the hard-working Mainers already here. Maine can embrace a new vision for itself – update aging housing stock and upgrade existing infrastructure – to build a future that all who choose to call Maine home can enjoy.

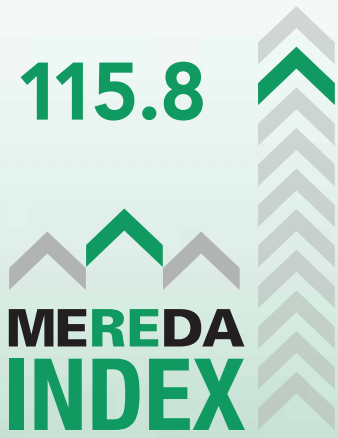
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LEANNE NICHOLS
BROKER
Keller Williams Realty



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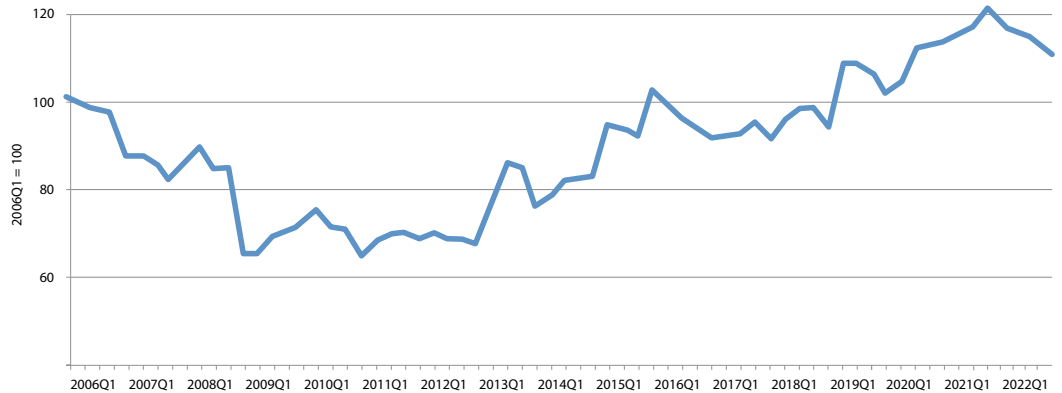
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THE CONSTRUCTION COMPONENT: 102.5

10%
COMPOSITE
INDEX

The Construction Employment Index was up rather strongly at 6.4%. The seasonally adjusted Index had values over 100 for all four quarters, though there was a steady drop over the year. The strength in the construction sector relative to the other sectors is most likely a function of spending fueled by the Bipartisan Infrastructure Law (BIL), which allowed Maine DOT to expand the number of projects underway. The BIL will continue to support construction, but the fall in residential permits noted above will offset at least some of that stability in construction.

MEREDA INDEX CONSTRUCTION EMPLOYMENT



“2022 was our biggest year in our 53-year history! I’m sure other firms shared this experience. While the volume of work across all sectors was tremendous, it was probably one of the most challenging years for both our pre-construction efforts and project delivery.

More than any other year, 2022 required true partnerships between owners and construction managers. Nearly 100% of our work is negotiated work, where we work as construction managers for a predetermined fee and give the owner a “Guaranteed Maximum Price” for the work. While there has been a general trend toward this project delivery method, it became one of the only viable options for the construction of large projects in the last few years. A high level of trust was required by both parties with each taking on additional risks to advance projects amidst supply chain disruptions, labor shortages and continued price escalation. Careful planning and early procurement – often in advance of final contracts, was required with increased risks for both parties. One of our project managers joked that she didn’t know what she would do with the other 6 hours of her day if things returned to a more normal state, emphasizing the amount of additional work required to manage this scarcity and volatility.

2022 made us a stronger company. It was like hitting the gym hard – finding new muscles and strengthening the rest. We realized very quickly that our best opportunity for impacting the trajectory of a project was early and we began investing more and more resources in early planning and the pre-construction process. The tools, processes and protocols that we developed have become standard operating procedures, increasing our capacity and ability to manage a dynamic and complex market.

We were fortunate to work with some of the best companies in the state and with individuals who understood the importance of transparency and a team approach for dealing with the complex challenges that 2022 presented. This reinforced our core values and commitment to building honest relationships and working with good people.

Finally, 2022 also reinforced the paramount importance of our people, as well as the need to keep and attract new talent. We worked hard to understand the needs and wants of our people so we knew what was needed to build our team. We have doubled-down on our commitment to maintaining a robust and fun culture which celebrates our people, their interests, and hard work.”



DREW WING
PRESIDENT
Zachau Construction

ABOUT MEREDA

The Maine Real Estate & Development Association (MEREDA) is an organization whose mission is to promote an environment for responsible development and ownership of real estate throughout the state. MEREDA accomplishes its mission through legislative advocacy, regulatory oversight, sponsorship of programs and conferences, and by serving as a unified and proactive representative for real estate and economic development interests. MEREDA is the state's leading organization of commercial real estate owners, developers and related service providers. Founded in 1985, we now have nearly 350 members who employ thousands of Maine citizens and invest millions of dollars in the Maine economy each year. MEREDA is the only voice for the real estate development industry in Maine. Our success is dependent upon bringing together many different trades that are vitally interested in promoting positive growth in our great state. MEREDA advocates for fair, consistent, predictable regulations to create a healthy economic climate. Our efforts to promote responsible growth through fair and predictable legislation and regulation are vital for a return to a healthy, thriving economy.

TECHNICAL NOTES

All data is either quarterly or monthly, converted to quarterly and then either seasonally adjusted or trended using moving averages and then compared to the value of each variable in the first quarter of 2006 (2006Q1=100). Data sources for the Index include: the Maine Association of Realtors, The Boulos Company, Maine Department of Labor, Mortgage Bankers Association, U.S. Census, and Moody's Analytics.

The relatively small volumes of real estate transactions in Maine and regular seasonal changes in the residential market mean that the raw numbers comprising the Index can be very volatile from month to month and quarter to quarter. The Index is constructed using methods that adjust for seasonal changes and better capture underlying trends in the real estate market. The underlying data is also subject to regular revisions as new information becomes available. Comparisons between the absolute values of the Index in different editions of the Index may not, therefore, be meaningful.

The source of all data for the commercial Index has been commercial real estate information maintained by The Boulos Company, which has generously made the data available for purposes of the Index.

Charles S. Colgan is Professor Emeritus of Public Policy & Planning in the Muskie School of Public Service at the University of Southern Maine, where he chaired the Graduate Program in Community Planning & Development. He is also Senior Research Advisor for the Maine Center for Business & Economic Research at USM. He served 12 years in the Maine State Planning Office including positions as Maine State Economist and director of the Maine Coastal Program. He currently serves as Director of Research at the Center for the Blue Economy in the Middlebury Institute of International Studies at Monterey in Monterey, CA. He received his BA from Colby College and his PhD in Economic History from the University of Maine.

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